

HEALTH CARE SERVICES FOUNDATION
AND SUBSIDIARY

JUNE 30, 2007

BATON ROUGE, LOUISIANA

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/13/08

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June 18, 2008

Independent Auditor's Report

Board of Directors

Health Care Services Foundation and Subsidiary
Baton Rouge, Louisiana

We have audited the accompanying Consolidating Statement of Financial Position of Health Care Services Foundation and Subsidiary as of June 30, 2007, and the related Consolidating Statements of Activities, and Cash Flows for the year ended June 30, 2007. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Health Care Services Foundation and Subsidiary as of June 30, 2007, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Hannis T. Bourgeois, LLP

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2007

<u>ASSETS</u>	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
Current Assets:				
Cash	\$ 822,410	\$ 1,749,903	\$ -	\$ 2,572,313
Receivables, Net	73,511	46,274	(62,562)	57,223
Insurance Receivables	-	4,487,710	-	4,487,710
Investments	-	18,350	-	18,350
Prepaid Expenses	-	25,030	-	25,030
Bond Issuance Costs	-	18,500	-	18,500
Total Current Assets	895,921	6,345,767	(62,562)	7,179,126
Property, Plant and Equipment, Net	3,249,613	5,056,546	-	8,306,159
Other Assets	216,117	-	-	216,117
Total Assets	\$ 4,361,651	\$ 11,402,313	\$ (62,562)	\$ 15,701,402
 <u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Line of Credit	\$ -	\$ 1,720,278	\$ -	\$ 1,720,278
Accounts Payable	113,252	1,483,049	(62,562)	1,533,739
Estimated Third-Party Payables	-	119,012	-	119,012
Other Current Liabilities	23,297	587,567	-	610,864
Current Portion of Long-Term Debt	-	41,011	-	41,011
Current Maturities of Capital Leases	-	9,503	-	9,503
Current Portion of Bonds Payable	225,000	-	-	225,000
Total Current Liabilities	361,549	3,960,420	(62,562)	4,259,407
Long-Term Liabilities:				
Long-Term Debt, Less Current Maturities	-	2,420,413	-	2,420,413
Long-Term Bonds Payable, Net of Unamortized Bond Cost of \$51,212	1,803,788	-	-	1,803,788
Total Liabilities	2,165,337	6,380,833	(62,562)	8,483,608
Net Assets:				
Unrestricted	1,915,449	5,021,480	-	6,936,929
Temporarily Restricted	280,865	-	-	280,865
Total Net Assets	2,196,314	5,021,480	-	7,217,794
Total Liabilities and Net Assets	\$ 4,361,651	\$ 11,402,313	\$ (62,562)	\$ 15,701,402

The accompanying notes are an integral part of this statement.

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Health Care Services Foundation - Unrestricted	Health Care Services Foundation - Temporarily Restricted	Health Care Services Foundation - Total
Revenues from Operations:			
Management and Implementation Fees	\$ 90,000	\$ -	\$ 90,000
Contributions	4,000	499,682	503,682
Other Revenue, Primarily Rental			
Income	783,024	-	783,024
Gain on Disposition of Fixed Assets	12,970	-	12,970
Net Assets Released from Restriction	218,817	(218,817)	-
	<u>1,108,811</u>	<u>280,865</u>	<u>1,389,676</u>
Operating Expenses:			
Bank and Bond Fees	33,935	-	33,935
Depreciation and Amortization	130,489	-	130,489
Equipment Rental	-	-	-
Insurance Expense	-	-	-
Interest Expense	85,017	-	85,017
Janitorial	98,100	-	98,100
Landscaping	5,720	-	5,720
Legal and Professional	131,185	-	131,185
Maintenance Contracts	15,180	-	15,180
Repairs and Maintenance	15,378	-	15,378
Supplies and Other	9,116	-	9,116
Utilities	118,703	-	118,703
	<u>642,823</u>	<u>-</u>	<u>642,823</u>
Change in Net Assets	465,988	280,865	746,853
Net Assets - Beginning of Year, as Restated	<u>1,449,461</u>	<u>-</u>	<u>1,449,461</u>
Net Assets - End of Year	<u><u>\$ 1,915,449</u></u>	<u><u>\$ 280,865</u></u>	<u><u>\$ 2,196,314</u></u>

The accompanying notes are an integral part of this statement.

Bogalusa Community Medical Center - Unrestricted	Eliminations	Consolidated Totals
\$ -	\$ (90,000)	\$ -
-	-	503,682
1,749,952	-	2,532,976
2,139,239	-	2,152,209
-	-	-
3,889,191	(90,000)	5,188,867
-	-	33,935
695,895	-	826,384
33,772	-	33,772
128,479	-	128,479
226,581	-	311,598
-	-	98,100
-	-	5,720
263,224	(90,000)	304,409
-	-	15,180
371,129	-	386,507
15,101	-	24,217
-	-	118,703
1,734,181	(90,000)	2,287,004
2,155,010	-	2,901,863
2,866,470	-	4,315,931
\$ 5,021,480	\$ -	\$ 7,217,794

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
Cash Flows From Operating Activities:				
Change in Net Assets	\$ 746,853	\$ 2,155,010	\$ -	\$ 2,901,863
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	130,489	695,895	-	826,384
(Gain) Loss on Disposition of Fixed Assets	(12,970)	(2,139,239)	-	(2,152,209)
Lease Bad Debt Expense (Net of Recovery)	-	(8,135)	-	(8,135)
Unrealized (Gain) Loss on Investments	-	(7,493)	-	(7,493)
Changes in Current Assets and Liabilities:				
(Increase) Decrease in Lease Receivables	27,764	5,171	-	32,935
(Increase) Decrease in Other Receivables	(60,000)	(4,432,361)	60,000	(4,432,361)
(Increase) Decrease in Other Assets	(216,117)	-	-	(216,117)
(Increase) Decrease in Prepaid Expense	-	50,066	-	50,066
Increase (Decrease) in Accounts Payable	113,252	1,452,412	(60,000)	1,505,664
Increase (Decrease) in Accrued Expenses	(1,579)	325,086	-	323,507
Net Cash Provided by (Used in) Operating Activities	727,692	(1,903,588)	-	(1,175,896)
Cash Flows From Investing Activities:				
Purchases of Capital Assets	(107,287)	(3,247,085)	-	(3,354,372)
Proceeds from Sale/Disposition of Capital Asset	14,800	5,997,715	-	6,012,515
Net Cash Provided by (Used in) Investing Activities	(92,487)	2,750,630	-	2,658,143
Cash Flows from Financing Activities:				
Payments for Bond Issuance Cost	-	(18,500)	-	(18,500)
Proceeds from Capital Lease Reimbursement	-	76,931	-	76,931
Repayment of Long Term Debt	(215,000)	(39,210)	-	(254,210)
Repayment of Capital Leases	-	(69,596)	-	(69,596)
Net Cash Used in Financing Activities	(215,000)	(50,375)	-	(265,375)

(CONTINUED)

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
Net Increase in Cash and Cash Equivalents	420,205	796,667	-	1,216,872
Cash and Cash Equivalents - Beginning of Year	402,205	953,236	-	1,355,441
Cash and Cash Equivalents - End of Year	822,410	\$ 1,749,903	\$ -	\$ 2,572,313
Supplemental Disclosure of Cash Flow Information:				
Cash Payments for Interest	\$ 86,596	\$ 226,581	\$ -	\$ 313,177

The accompanying notes are an integral part of this statement.

HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Note 1 - Summary of Significant Accounting Policies -

Organization

Health Care Services Foundation, ('the Foundation') is a nonprofit organization, incorporated in the State of Louisiana that provides support and appropriate services to the Health Care Services Division of the Louisiana State University Agricultural and Mechanical College ('the Division') which includes purchasing, leasing, owning, operating, managing and selling property and services to maximize healthcare capabilities in Louisiana. Bogalusa Community Medical Center ('BCMC') is a nonprofit, non-stock corporation, incorporated in the State of Louisiana. On April 25, 2002, the Foundation became the sole member of the BCMC. BCMC leases the hospital's facilities to the Louisiana State University Health Care Service Division (LSUHCSD). The Foundation and BCMC are referred to collectively as the "Organizations."

Operations

The Organizations define operations as all program and supporting service activities undertaken to promote and support the Division and all the hospitals, health care facilities, departments, and divisions comprising it. Revenues that result from these activities, and their related expenses, are reported as operations. Gains, losses and other revenue that results from ancillary activities, such as investing liquid assets and disposing of fixed or other assets, are reported as non-operating.

Principles of Consolidation

The financial statements include the accounts of the Health Care Services Foundation and the Bogalusa Community Medical Center and have been consolidated in accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. All significant intercompany accounts and transactions have been eliminated in these financial statements.

Basis of Accounting

The Organizations prepare their financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board on its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organizations are required to report information regarding their financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Cash and Cash Equivalents

The Organizations consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered.

Net Assets

The Organizations classify assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions.

Lease Receivable

Lease receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on aging of currently outstanding amounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in revenues.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Property and Equipment

Property and equipment acquisitions are recorded at cost if purchased, or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Assets under capital lease obligations are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset, and are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The class lives of the assets are as follows:

Buildings	40 years
Equipment	5 years
Furniture and Fixtures	7 years

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets if material. Costs incurred in connection with the obtaining of financing are deferred and are amortized over the period the obligation is outstanding on the interest method. Costs and premium or discounts incurred in connection with the issuance of bonds or indentures is amortized over the life of the obligation on the straight line method, and the unamortized amount is included in the balance of the outstanding debt.

Contributions

Unconditional promises to give cash or other assets to the Organizations are recorded at fair value on the date the promise is received. Conditional promises to give are recorded at fair value at the date the promise becomes unconditional. Gifts of cash and other assets are presented as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most sensitive estimates included in these financial statements relate to contractual discounts under third-party arrangements and the allowance for uncollectible accounts.

Federal Income Taxes

The Organizations are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). There were no unrelated business activities for the year ended June 30, 2007. Accordingly, no tax expense was incurred during the year ended June 30, 2007.

Note 2 - Related Parties -

Health Care Services Foundation is affiliated with the Health Care Services Division of the Louisiana State University Agricultural and Mechanical College which includes the building property and general liability insurance of HCSF with their office of Risk Management policy for the land, building and equipment rented to Health Care Services Division of the Louisiana State University Agricultural and Mechanical College.

Health Care Services Foundation is the sole member of Bogalusa Community Medical Center. The Foundation provides management and administrative services to the BCMC. Administrative fees paid through June 30, 2007 totaled \$30,000, and a payable existed at June 30, 2007 for the remaining balance of \$60,000. As such, administrative fees for the fiscal year ended June 30, 2007 totaled \$90,000 and is eliminated in these financial statements.

In addition, the BCMC is affiliated with the Health Care Services Division of the Louisiana State University Health Sciences Center through a recapitalization agreement. The Division leases from BCMC all net rentable space in its hospital. At June 30, 2007, rental income received from LSU HCSD totaled \$1,544,567. In addition amounts owed to LSU HCSD at June 30, 2007 amounted to \$555,136 for excess rents charged.

Note 3 - Concentration of Credit Risk -

The Organizations maintain cash accounts with commercial banks which are insured by the Federal Deposit Insurance Corporation up to \$100,000. Periodically, cash may exceed the federally insured amount.

Note 4 - Investments -

Investments of BCMC consists of the following at June 30, 2007:

	<u>Fair Value</u>
Common Stock	\$ 18,350

The unrealized gain on investments for the fiscal year ended June 30, 2007 amounted to \$7,493.

Note 5 - Property, Plant and Equipment -

A summary of property, plant and equipment for the Foundation at June 30, 2007 is set forth below:

Land	\$ 370,000
Building and Improvements	2,995,655
Furniture	100,950
Equipment	<u>182,512</u>
	3,649,117
Less Accumulated Depreciation and Amortization	<u>(399,504)</u>
	<u>\$ 3,249,613</u>

Depreciation expense for the year ended June 30, 2007 amounted to \$128,548.

A summary of property, plant and equipment for BCMC at June 30, 2007 is set forth below:

Land	\$ 18,585
Buildings and Improvements	2,107,647
Equipment	<u>9,890,453</u>
	12,016,685
Less: Accumulated Depreciation and Amortization	(10,034,313)
Construction in Progress	<u>3,074,174</u>
	<u>\$ 5,056,546</u>

Depreciation and amortization expense for the year ended June 30, 2007, amounted to \$695,895. Accumulated amortization for equipment under capital lease obligations at June 30, 2007, is \$816,726.

Note 6 - Leases -

The Foundation entered into an agreement to lease space, land and equipment to Louisiana State University Health Care Sciences Division (LSUHCSD) to be used as a medical office and clinic facility. The rent commencement date was June 1, 2004 and will continue until May 31, 2014. Base rent is \$53,323 per month, based on monthly estimated operating costs plus estimated debt service. The operating costs component of base rent shall be reconciled annually and the debt service component of base rent shall be reconciled quarterly. Rent income for the year ended June 30, 2007 was \$758,112.

The BCMC has entered into multiple non-cancelable leases with third parties for the lease of various property and equipment. These leases are as follows:

Lease agreement to lease space, land, and equipment to Louisiana State University Health Care Sciences Division ("LSUHCSD") to be used as a hospital, effective June 2002 and extending until June 2007 with options to extend monthly thereafter. The lease was restated and amended in September 2007 and extended for 32 years. The monthly lease amount is variable based on reimbursable operating costs and is to be analyzed and adjusted quarterly. The monthly lease amount for the fiscal year ended June 30, 2007 was \$147,590.

Lease agreements with various third parties on a month to month basis to lease space, property, and equipment. The monthly rental of these various leases totaled \$10,135.

The carrying values of the property and equipment leased by the BCMC are as follows:

Buildings and Improvements	\$ 2,107,647
Equipment	9,890,453
Construction in Progress *	<u>2,693,263</u>
Total Leased Property	14,691,363
Less: Accumulated Depreciation	<u>10,034,313</u>
Net Leased Property	<u>\$ 4,657,050</u>

* The balance of the construction in progress relates to the repairs to the building as a result of 2005 storm damage.

The following is a schedule by years of future minimum rental payments receivable on noncancelable long-term leases as of June 30:

<u>Year Ended June 30,</u>	<u>Future Rental Revenues</u>
2008	\$ 1,771,080
2009	1,771,080
2010	1,771,080
2011	1,771,080
2012	1,771,080
Thereafter	<u>46,343,260</u>
Total Minimum Future Rentals	<u>\$ 55,198,660</u>

For the purpose of these statements, the variable lease amount as of June 30, 2007 as well as the terms of the new lease was used in the determination of the minimum future rentals and thus is subject to change.

Note 7 - Line of Credit Agreement -

During the year ended June 30, 2006, BCMC entered into an agreement with a bank for a \$2,000,000 line of credit, secured by a mortgage and security interest in all of the presently owned and subsequently acquired movable and immovable property owned by the BCMC. The line of credit, which matures on December 31, 2007, bears interest at a rate of 1.10 percentage points over the London Inter-Bank Offered Rate (LIBOR) Index (which was 5.35% at June 30, 2007). The balance on the line of credit at June 30, 2007 was \$1,720,278.

Note 8 - Long-Term Debt -

A summary of long-term debt and capital lease obligations for BCMC at June 30, 2007 follows:

USDA-FMHA loan, due in monthly installments through December 2036, at an interest rate of 4.50 percent, collateralized by BCMC revenue, converted from construction loan	\$ 2,461,424
Capital leases, with varying rates of imputed interest, from 6.0 to 22.00 percent, collateralized by leased equipment	<u>9,503</u>
	2,470,927
Less: Current Portion	<u>(50,514)</u>
Long-Term Debt, Net of Current Portion	<u>\$ 2,420,413</u>

As discussed further in Note 1, control over BCMC was transitioned to the Foundation subsequent to June 23, 2002. As a part of that transaction, the previously existing debt covenants were renegotiated with the holders of the debt to remove all of said covenants as long as no conditions of default exist under the lease agreement between the Louisiana State University Health Care Services Division and the BCMC. If occurrences that constitute an event of default do exist, then all covenants will be reinstated in their entirety. No such events occurred for the year ended June 30, 2007.

Scheduled principal repayments on debt and payments on capital lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Debt</u>	<u>Obligations Under Capital Leases</u>
2008	\$ 40,011	\$ 9,503
2009	42,895	-
2010	44,866	-
2011	46,927	-
2012	49,082	-
Thereafter	<u>2,237,643</u>	<u>-</u>
Total	<u>\$ 2,461,424</u>	9,503
Less: Amount Representing Interest Under Capital Lease Obligations		<u>(85)</u>
		<u>\$ 9,418</u>
A summary of interest cost of borrowed funds follows:		
Interest cost charged to operations		<u>\$ 226,581</u>

Note 9 - Bond Payable -

During 2003, the Foundation issued Equipment and Capital Facilities Pooled Loan Program Revenue Bonds Series 2003B in the amount of \$2,500,000 dated October 1, 2003. The bond was issued to finance the renovation of a health care facility. The bond was issued through the Louisiana Public Facilities Authority. The trust indenture established the maturity of this bond to be July 1, 2014. Hancock Bank of Louisiana serves as the Trustee and is the Mortgagee. The bonds are secured by an irrevocable direct pay letter of credit issued by Capital One in the amount of \$2,152,487.

Under the terms of the Trust Indenture for the bonds, the Foundation is requested to fund a sinking fund account at the bank. The account is to be funded monthly for 1/12 of the principal amount to be paid at the next due date of the bond payment. The provisions of the bond contain certain covenants that the Foundation must comply with or maintain throughout the term of the bonds.

At June 30, 2007, the outstanding indebtedness consisted of the following:

<u>Bond Series</u>	<u>Indenture Maturity</u>	<u>Interest Rate</u>	<u>Payable 6/30/07 Net of Unamortized Bond Costs of \$51,212</u>
2003B	7/01/14	The rate at June 30, 2007 was 4.23% and adjusts weekly.	<u>\$ 2,028,788</u>

Interest expense for the year ended June 30, 2007 was \$85,017.

Bonds are required to be redeemed as follows:

2008	\$ 225,000
2009	230,000
2010	240,000
2011	255,000
2012	265,000
Thereafter	<u>865,000</u>
	<u>\$ 2,080,000</u>

Note 10 - Insurance Programs -

Medical Malpractice Insurance

The BCMC is liable for services performed in prior years. Due to this liability, the BCMC maintains professional and general liability insurance to cover malpractice claims.

There were no material claims asserted or anticipated, and the BCMC has not accrued any losses for malpractice claims or expenses. Nevertheless, the future assertion of claims for occurrences prior to June 23, 2002 is possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

Note 11 - Prior Period Adjustment -

A prior period adjustment was made to the net assets of BCMC to correct certain errors which resulted in an overstatement of Accounts Payable:

Net Assets at July 1, 2006, as Originally Reported	\$ 2,554,023
To Correct the Overstatement of Accounts Payable During the Prior Year	233,285
To Correct the Net Overstatement of Capital Lease Payable and Related Asset Balance	<u>79,162</u>
Net assets at July 1, 2006, as Restated	<u>\$ 2,866,470</u>

Note 12 - Commitments and Contingencies -**Operating Leases**

The BCMC leased various pieces of equipment under operating leases that expired at various dates through June 2007. Total rental expense for the year ended June 30, 2007, for all operating leases was \$33,772.

Litigation

The BCMC is involved in litigation and regulatory investigations arising in the normal course of business. The BCMC is a member of the Louisiana Patients' Compensation Fund and therefore, under current Louisiana law, its liability is currently limited to the statutory maximum of \$500,000 which is provided by a primary coverage of \$100,000 with the Louisiana Hospital Association Malpractice and General Liability Trust, and an additional \$400,000 through the State of Louisiana, Patients' Compensation Fund. This limit of liability, however, is not applicable to general liability claims. Management is of the opinion that there are no unresolved matters that would have a material adverse effect on the BCMC's future financial position or results of operations.

Note 13 - Hurricanes Katrina and Rita -

Hurricane Katrina hit the coasts of southeast Louisiana, Mississippi and Alabama on August 29, 2005. Hurricane Rita hit the coasts of southwest Louisiana and southeast Texas on September 24, 2005. Damages due to wind and flooding were catastrophic in these areas. At June 30, 2007, the net book value of the damaged portion of the building and its improvements totaled \$3,847,987. Management has negotiated with their insurance company and expects to receive proceeds in the amount of \$5,994,715. As a result of the damage to the building and insurance proceeds, a gain of \$2,146,728 has been recorded in these financial statements. At June 30, 2007, \$4,487,710 was recorded as a receivable for the portion of the insurance proceeds still owed BCMC. As of the date of this report, the entire balance of \$5,994,715 had been received.

Note 14 - Agency Transactions -

The Foundation entered into an agency agreement with LSUHCSD on April 5, 2006. Within this agreement, the Foundation was given the authority to purchase specified equipment on behalf of LSUHCSD. At June 30, 2007, the Foundation had received donated funds for which to purchase equipment in the amount of \$4,900,000 and had transferred the equipment to the parties specified by LSUHCSD.

Note 15 - Net Assets Released from Restrictions -

Net assets were released from restrictions for incurring expenses, satisfying the restricted purpose.

Restricted Accomplished:	
Mobile Eye Clinic	\$ 216,117
Other	<u>2,700</u>
	<u>\$ 218,817</u>

Note 16 - Restriction on Net Assets -

Temporarily restricted net assets are available for the following purposes:

Mobile Eye Clinic	\$ 83,883
Automatic Doors and Covered Walk	6,500
Disease Management Program	3,000
Patient Education units/Mobil Medical Units	<u>187,482</u>
	<u>\$ 280,865</u>

Note 17 - Subsequent Event -

On September 28, 2007, Health Care Community Development Corporation issued \$12,875,000 of Revenue Bonds for the Bogalusa Community Medical Center Project, series 2007A and also Health Care Community Development Corporation issued \$4,625,000 of Taxable Revenue Bonds, series 2007B tax credits. The bond was issued through Louisiana Public Facilities Authority to finance the renovations of BCMC's health care facility and the balance remaining is to payoff the line of credit and the USDA - FMHA loan. The trust indenture establishes the maturity of this bond to be June 15, 2038. Regions Bank serves as the trustee. The bonds are secured by a bond insurance policy issued by MBIA that guarantees payment of principal and interest to the trustee for the Series 2007 Bonds.

HEALTH CARE SERVICES FOUNDATION

AGREED UPON PROCEDURES

JUNE 30, 2007



Hannis T. Bourgeois, LLP

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February 2, 2008

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Directors
Health Care Services Foundation
Baton Rouge, Louisiana

We have performed the procedures enumerated below, which were specified by the Board of Supervisors solely to assist you with respect to the Health Care Services Foundation and its wholly owned subsidiary Bogalusa Community Medical Center's compliance requirements with the LSU Affiliation Agreement and addendum thereto for the year ended June 30, 2007. Management is responsible for compliance with this agreement. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

Procedures

Verified that the Foundation maintains a written policy regarding the handling and resolution of audit findings, audit exceptions, and any misuse of funds and that a copy of that policy was provided to the University.

Verified that the Foundation's governing board established and implemented policies governing all disbursements for administrative and operating expenses and evaluated whether or not the policies provide for sound and prudent business practices, the payment or reimbursement of ordinary, necessary and reasonable business expenses, and the avoidance of conflicts of interests.

On a sample of items, test whether or not supplemental compensation or benefit, as defined by paragraph A.2 or the Addendum, was paid directly to a University employee without an exception approved by the President of the LSU System (President).

On a sample of items, test whether or not payments made to or on behalf of University employees for travel, moving, relocation, entertainment, educational benefits, and other reimbursements were approved by the employee's dean, vice-chancellor, or other equivalent administrative official.

On a sample of items, test whether or not payments for moving and relocation expenses of University employees covered by PM 69 were approved by the President.

On a sample of items, test whether or not there were payments made for expenses that are solely for the private benefit of a University employee (or the family or spouse of a University employee or other non-employee who is on University business) except for payments for which prohibition does not apply as indicated in paragraph B.1 of the Addendum.

On a sample of items, test whether or not fines, forfeitures or penalties of University employees were paid.

On a sample of items, test whether or not gifts represented to be personally from a University employee were not made by the Foundation, nor has any University employee been reimbursed for the purchase of such gift.

On a sample of items, test whether or not political contributions which are prohibited by applicable Internal Revenue Service Regulations or state law have been made or reimbursed.

On a sample of items, test whether or not payments were made for any expense or reimbursement which would create, under all circumstances, a reasonable conclusion on behalf of the Foundation that the benefit to the individual University employee outweighs the benefit to the University. To determine if adequate procedures are in place to address doubtful situations in accordance with paragraph B.5 of the Addendum.

On a sample of items, test whether or not payments were made for any expense or reimbursement which would create, under all circumstances, a reasonable conclusion on behalf of the Foundation that the amount is extravagant or lavish beyond the appropriate University purpose. To determine if adequate procedures are in place to address doubtful situations in accordance with paragraph B.6 of the Addendum.

On a sample of items, test whether or not funds were disbursed in connection with contracts (or other agreements) between the Foundation and a University employee unless an exception has been approved by the President.

On a sample of items, test whether or not other payments to or on behalf of University employees, i.e. payments not specifically addressed above, were made in accordance with specific approval of the President or written joint amendment or clarification to the Addendum.

The results of our procedures are presented below:

Policies and Procedures

Finding:

Health Care Services Foundation and Bogalusa Community Medical Center's written policies and procedures in effect as of June 30, 2007 did not include an established policies/procedures relating to the handling and resolution of audit findings, audit exceptions, and any misuse of funds.

Corrective Action Taken

Health Care Services Foundation and Bogalusa Community Medical Center established policy and procedures in July 2007 to address the handling and resolution of audit findings, audit exceptions, misuse of funds.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Health Care Services Foundation and Bogalusa Community Medical Center, the LSU System, and the Board of Supervisors, and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hannis T. Bourgeois, LLP